

ALTERNATIVES FOR FUNDING THE MONTANA VETERANS' HOME

A Report Prepared for the
**Joint Appropriations Subcommittee on
Health and Human Services**

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INTRODUCTION

The Joint Appropriations Subcommittee on Health and Human Services requested information on:

- Options for funding the Montana Veterans' Homes including:
 - Closing the facility and issuing residents of the Montana Veterans' Home state vouchers that could be used to offset the costs of services at other nursing homes
 - Adopting the business model used by the Eastern Montana Veterans' Home whereby a private entity contracts with the state to operate the facility
 - Budgeting the facility at the average cost of private facilities
- Impacts of building the Southwestern Montana Veterans' Home

The purpose of this report is to outline the policy considerations associated with each of the options.

VETERANS NURSING HOME SERVICES CURRENTLY AVAILABLE IN MONTANA

Montana Veterans' Home, Columbia Falls

The Montana Veterans' Home (MVH) a 105 bed facility located in Columbia Falls, provides skilled nursing, intermediate nursing, and other ancillary services to Montana's elderly veterans. The facility has a 15 bed special care unit serving residents with dementia disorders including Alzheimer's disease. MVH also operates a 12 bed domiciliary for veterans who require less assistance and supervision than nursing home residents. In FY 2010 the facility had an occupancy rate of 81 percent meaning that an average of 20 beds at the facility were available at any given time. By comparison, in FY 2006 the occupancy rate was 93 percent and the rate as of 2/4/2011 was 87 percent.

Eastern Montana Veterans' Home, Glendive

The Eastern Montana Veterans' Home, an 80 bed facility located in Glendive, provides skilled nursing, intermediate nursing, and other ancillary services to Montana veterans. The facility operates a 16 bed special care unit for veterans requiring services for dementia and Alzheimer's disease. The state of Montana contracts with a private provider to operate the facility. In FY 2010 the facility had an occupancy rate of 86 percent with an average of 11 beds available throughout the year. In FY 2006 the occupancy rate was 70 percent the rate as of 2/4/2011 was 76 percent.

Miles City VA Community Based Outreach Clinic/Nursing Home

The Miles City Division of the VA Montana Healthcare System includes a 30 bed nursing home care unit providing nursing home care to eligible veterans in Montana. This nursing home is wholly operated by the federal government and provides nursing home care for veterans with 100 percent service connected disabilities.

Current Budgeted Costs

Both state veterans' homes are funded from insurance, Medicare, Medicaid, and private payments as well as federal Veterans' Administration per diem payments. The figure shows the total proposed budgeted costs for each state veterans' home compared to the FY 2010 base budget expenditures, the estimated daily population, and the annual cost per day of care.

Senior and Long-term Care Division Veterans' Homes FY 2010 Expenditures and Revenues 2013 Biennium Executive Budget Request				
Institution/ Cost/Funding	Actual FY 2010	Budgeted FY 2011	Executive Budget Request FY 2012	Executive Budget Request FY 2013
<u>Montana Veterans' Home</u>				
FTE	143.04	143.19	143.04	143.04
Personal Services	\$6,663,706	\$7,185,508	\$7,049,052	\$7,048,853
All Other	<u>3,270,547</u>	<u>3,157,597</u>	<u>3,597,003</u>	<u>3,614,281</u>
Total Cost	<u>\$9,934,253</u>	<u>\$10,343,105</u>	<u>\$10,646,055</u>	<u>\$10,663,134</u>
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	7,515,416	7,768,498	7,796,304	7,799,850
Federal Special Revenue	<u>2,418,837</u>	<u>2,574,607</u>	<u>2,849,751</u>	<u>2,863,284</u>
Total Funding	<u>\$9,934,253</u>	<u>\$10,343,105</u>	<u>\$10,646,055</u>	<u>\$10,663,134</u>
Population	94.10	104.00	90.30	89.30
Annual Cost Per Person	\$105,571	\$99,453	\$117,897	\$119,408
Cost Per Day	\$289	\$272	\$323	\$327
Annual Change		-5.80%	18.55%	1.28%
Annual Per Person Reimbursement				
State Special Revenue	\$79,866	\$74,697	\$86,338	\$87,344
Annual Change		-6.47%	15.58%	1.17%
Federal Special Revenue	\$25,705	\$24,756	\$31,559	\$32,064
Annual Change		-3.69%	27.48%	1.60%
<u>Eastern Montana Veterans' Home</u>				
FTE	1.20	1.00	1.20	1.20
Personal Services	\$56,182	\$55,668	\$67,544	\$67,385
All Other	<u>1,620,754</u>	<u>1,687,730</u>	<u>2,575,536</u>	<u>2,575,542</u>
Total Cost	<u>\$1,676,936</u>	<u>\$1,743,398</u>	<u>\$2,643,080</u>	<u>\$2,642,927</u>
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	261,865	298,220	273,482	272,975
Federal Special Revenue	<u>1,415,071</u>	<u>1,445,178</u>	<u>2,369,598</u>	<u>2,369,952</u>
Total Funding	<u>\$1,676,936</u>	<u>\$1,743,398</u>	<u>\$2,643,080</u>	<u>\$2,642,927</u>
Population	69	66	69	69
Annual Cost Per Person	\$24,445	\$26,415	\$38,506	\$38,504
Cost Per Day	\$67	\$72	\$105	\$105
Annual Change		8.06%	45.77%	-0.01%
Annual Per Person Reimbursement				
State Special Revenue	\$3,817	\$4,518	\$3,984	\$3,977
Annual Change		18.37%	-11.82%	-0.19%
Federal Special Revenue	\$20,628	\$21,897	\$34,522	\$34,527
Annual Change		6.15%	57.66%	0.01%

Changes to the annual cost per person for the Montana Veterans' Home are driven by two factors:

- 1) Reduced census in FY 2010 that carries into the 2013 biennium
- 2) Elimination of overtime and holiday pay from the FY 2010 base budget

Federal per diem payments were increased significantly effective October 1, 2010, from \$77.53 to \$94.59 per day. Federal per diem is paid to nursing homes established by Montana as homes primarily for veterans disabled by age, disease, or other disabilities and approved by the federal Veterans' Administration. The balance of the costs not paid by these funding sources is paid from cigarette tax state special revenue allocated for veterans' uses.

The significant variation between the two facilities is due to the different business models used by the state to operate the facilities:

- 1) Montana Veterans' Home is operated and staffed by the state of Montana (143.04 FTE). Funding shown reflects all sources of revenues including about \$4.7 million each year in private insurance, Medicaid and Medicare reimbursements.
- 2) Eastern Montana Veterans' Home is operated by a private provider under contract with Montana. One position (1.00 FTE) oversees the contract. Other staffing costs would be incurred by the private provider operating the home and are not reflected in the figure. Funding shown in the figure includes support for contract oversight, building maintenance costs, and federal per diem payments. Reimbursements from private insurance, Medicaid, and Medicare are the revenues of the private provider and as such are not included in the appropriations considered by the legislature.

POLICY OPTIONS FOR FUNDING THE MONTANA VETERANS' HOME

Option 1 - Closing MVH

One of the options was to close the MVH and issue vouchers to residents for care in other nursing home facilities. Several factors should be considered in relation to this option including:

- Continuation of federal per diem payments
- Federal pharmacy benefits provided by MVH
- Construction costs for the Special Care Unit

These factors are discussed in detail below.

Federal Per Diem Payments

Based on the requirements outlined in the federal regulations the federal per diem payments could not be used to support vouchers for residents to receive services in other nursing homes. This limits the funding of vouchers for residents to cigarette tax state special revenues.

While the establishment, location, and control and administration of state veterans' homes are the responsibility of the state, federal regulations outline the requirements for federal per diem payments for veterans. The requirements include:

- state-operation of the facility
- designation of the facility as a recognized state home for nursing home care
- annual certification that the facility and facility management meets the standards outlined in the regulations

Additional regulations outline the maximum number of state home, nursing home and domiciliary beds Montana may have at a total of 281 beds. Currently Montana has 197 beds allowable for federal per diem payments.

Federal Pharmacy Benefits Provided at MVH

Currently the MVH operates an onsite federal pharmacy. The pharmacy provides no cost or low cost drugs to residents of MVH and eligible veterans in the Flathead area. Closing MVH could eliminate the pharmacy benefits for the veterans in the Flathead area as the Department of Public Health and Human Services has not yet determined if the pharmacy could continue to operate under federal requirements if the facility closes. The salary costs for the pharmacist are included in the ancillary costs of MVH>

Construction Costs for the Special Care Unit

Federal funds for construction of veterans' nursing homes were granted in FY 2001 at a cost of \$820,142 federal funds and \$441,615 state special revenue funds. Under recapture provisions included in federal requirements for the construction grant, if less than 20 years has lapsed since the grant, the federal VA shall be entitled to recover 65 percent of the current value of the facility up to the amount of the grant provided.

The requirement to operate the special care unit for 20 years will not be met until 2021, requiring the state to repay the federal government up to \$820,142 in federal construction funds if MVH is closed in the next biennium.

Additional considerations for closing MVH and issuing vouchers include:

- Ongoing maintenance of the buildings and grounds of the facility
- Disposition of the building
- Veteran eligibility for vouchers
- Costs associated with laying off state workers and reduction in force requirements
- Nursing home utilization fee revenue reductions of about \$250,000 a year that would generate about \$969,000 in federal Medicaid funds for nursing homes over the 2013 biennium

Summary

If the facility were to close, federal per diem payments could not be used for vouchers, the state would have to repay construction costs for the special care unit, DPHHS would need to resolve the questions related to the continuation of the federal pharmacy program, and other associated costs of closing the facility would need to be determined and appropriated.

Option 2 - Contracting With a Private Entity to Operate the State Facility

The Eastern Montana Veterans Home (EMVH) business model uses state staff to oversee a contract with a private provider to operate the facility on behalf of Montana veterans. This arrangement ensures:

- Continued designation as a state veterans' home and eligibility for federal per diem payments
- Support from the cigarette tax state special revenue account for state staff overseeing the contract and costs of maintaining the buildings and grounds

The maintenance of the MHV campus and the associated costs are significant different from those of EMVH make assumptions as to the cost savings for the state by privatizing MVH using the EMVH contract as a model difficult. The need to maintain the historic buildings and veterans' cemetery would continue as a state responsibility as would the maintenance of the current nursing home. Staffing costs associated with the maintenance would continue to be a cost of the state and funding a cost of the cigarette tax state special revenue. In addition, the legislature would need to take into account the costs associated with laying off the state employees and implementing a reduction in force for MVH.

The question of the viability of this option includes the following issues:

- Can a private provider operate MVH profitably?
- Would staffing ratios need to change under a private contractor to ensure profitability and what effect would this have on the resident care?
- If staffing levels are changed, can a private contractor maintain the quality of care currently provided residents, and how will the department monitor the changes?
- What are the costs to the state associated with this option including one-time-only costs for

Until an RFP is issued, it is unclear if the department would have private contractors interested in providing nursing home care at MVH. The legislature may wish to discuss with DPHHS the process the department would use if this option was selected.

Option 3 - Budgeting MVH At The Average Cost of Private Facilities

As stated previously, MVH operates a 105 bed nursing home in Columbia Falls. To access the option of funding MVH at the average of comparable facilities LFD staff reviewed cost reports for 12 other nursing home facilities. To further refine the cost information additional averages were developed using subsets of the original facilities based on:

- Occupied beds during the year as compared to total number of beds available to ensure similar numbers of residents requiring care

- Similar geographical locations to isolate potential impacts of staffing costs due to competition for nursing staff
- Comparable quality rankings determined by CMS to assess potential increased costs for quality care

The results of this review are presented and discussed below. For purposes of this review the costs associated with buildings and fixtures and capital related equipment were not included. The MVH has a 20 acre campus, a number of buildings designated as national historic sites, and a veterans' cemetery. The costs associated with these facilities and grounds would not be comparable to private entities as a result of the additional requirements placed on the MVH facilities.

Other costs that were not included in the review include pharmacy costs and ancillary services such as physical therapy, occupational therapy, or oxygen. These are not considered costs of providing skilled or intermediate nursing care as a part of the nursing home.

Average Costs of Facilities

To determine the average costs of comparable private nursing homes, the LFD staff first reviewed Medicaid Cost Report Worksheets submitted by 12 private nursing homes in western Montana with similar number of beds. It should be noted that MVH as a special care unit to serve individuals with dementia related conditions. At least two of the other facilities included in the averages also operates an Alzheimer's unit. However, separate costing information on serving these individuals is not included in the reports reviews.

The figure on the next page shows the results of this review.

Department of Public Health and Human Services Senior and Long-term Care Division Montana Veterans Home/ Private Nursing Home Comparison										
Operating Costs										
Comparison with 12 other facilities with similar capacity	Employee Benefits	Administrative Costs	Plant Operations	Laundry	House Keeping	Dietary	Nursing Supplies	Medical Records	Social Services & Activities	Direct Costs
Average for Comparable Facilities	660,349	698,652	271,167	69,471	101,129	391,907	53,604	23,765	118,598	1,676,585
Montana Veterans Home	2,306,454	906,419	724,351	234,722	247,227	1,019,262	0	64,564	378,519	3,414,160
Costs Differences	1,646,105	207,767	453,184	165,251	146,098	627,355	(53,604)	40,799	259,921	1,737,575
Percentage above (below) average	249.28%	29.74%	167.12%	237.87%	144.47%	160.08%	-100.00%	171.68%	219.16%	103.64%
										143.35%

Overall MVH was 143.3 percent higher in direct costs when compared to the average costs associated with operating the other facilities. It should be noted that half of the facilities did not provide specific information on employee benefits but included these costs in the overall costs of the nursing services, social services activities, dietary, housekeeping, etc. However for those facilities providing employee benefit costs it was noted that:

- o Workers' compensation costs for MVH were 455.9 percent higher than the average of the six facilities reporting these costs
- o In addition to MVH, only two other facilities provided pension benefits for employees
- o MVH health insurance costs were 380.4 percent higher than the average of the six facilities reporting these costs

The higher costs related to plant operations for MVH are due in part to the larger campus, maintenance of historical buildings, and maintenance of the veterans' cemetery. Significantly higher costs across laundry, dietary, housekeeping, social services and nursing services were noted as shown in the figure above.

Average Costs for Facilities in the Same Geographic Region

To further examine differences in costs, averages for facilities in the same geographical region were examined to determine if regional factors such as increased salary costs might be a factor impacting overall costs for MVH.

Department of Public Health and Human Services Senior and Long-term Care Division Montana Veterans Home/ Private Nursing Home Comparison										
Operating Costs										
Comparison with facilities in same geographic location	Employee Benefits	Administrative Costs	Plant Operations	Laundry	House Keeping	Dietary	Nursing Supplies	Medical Records	Social Services & Activities	Direct Costs
Average for Comparable Facilities	829,907	749,559	234,841	57,247	121,951	317,826	27,310	35,285	136,410	2,130,794
Montana Veterans Home	2,306,454	906,419	724,351	234,722	247,227	1,019,262	0	64,564	378,519	3,414,160
Costs Differences	1,476,547	156,860	489,510	177,475	125,276	701,436	(27,310)	29,279	242,109	1,283,366
Percentage above (below) average	177.92%	20.93%	208.44%	310.01%	102.73%	220.70%	-100.00%	82.98%	177.49%	60.23%
										90.97%

Based on the averages calculated in the figure above, higher overall costs were reported for those nursing homes in the same geographical location as MVH. This could be partially explained by a competitive labor market for nursing staff within the region. However, MVH costs were still

approximately 90.9 percent higher than the costs in facilities in the same geographical location with significant differences between MVH and regional facilities in the overall cost of nursing services, laundry, social activities and dietary costs.

Staffing Ratio Comparisons

To further examine potential factors driving the differences, LFD staff developed information on the average staffing for facilities, both the average of the 12 facilities and the average of those located in the same geographical area as MVH. Staffing ratios impact the costs of nursing services, social services, laundry, and dietary costs. Information on the number of full-time and part-time for both groups is presented below. Other staff includes laundry, maintenance, and dietary staff.

[illegible]

Review of the average staffing ratios for administrative, aides and orderlies, and other staff compared to MVH shows MVH is higher than the average for numbers of full-time staff in all cases. Part-time staff comparisons show even higher percentages for MVH when compared to the average of the other facilities.

Senior and Long-term Care Division													
Montana Veterans Home/ Private Nursing Home Comparison													
Staffing Ratios	Full-time						Part-time						
	Administrative Staff	Pharmacists Therapists Technicians	Registered Nurses	Aides and Orderlies	Other	Total Staff	Administrative Staff	Pharmacists Therapists Technicians	Registered Nurses	Aides and Orderlies	Other	Total Staff	
Comparison with facilities in same geographic location													
Average Comparable Facilities	4	2	2	13	38	9	66	1	3	6	25	8	43
Montana Veteran's Home	12	0	0	9	43	33	97	0	0	13	29	19	61
Staffing Differences	8	-2	-4	-4	5	24	31	-1	-3	7	4	11	18
Percentage above (below) average	200.00%	-100.00%	-30.77%	-30.77%	13.16%	266.67%	46.97%	0.00%	-100.00%	116.67%	16.00%	137.50%	41.86%

Further review of the average staffing ratios for those facilities located in the same geographic location shows higher ratios of staff at MVH than the average of the regional facilities. As with the previous example however, the difference narrows somewhat when compared to facilities in the same geographic location. MVH is higher than the regional average for administrative staff, aides and orderlies and other staff but lower in pharmacists, therapists and technicians and registered nurses.

Occupancy Rate Comparisons

To determine the costs relationship to occupancy rates a comparison was completed showing the direct costs of operation for facilities with occupancy rates equal to or higher than MVH. This comparison is presented in the Figure below.

Department of Public Health and Human Services Senior and Long-term Care Division Montana Veterans Home/ Private Nursing Home Comparison Cost Center Expenses											
Comparisons Based on Occupancy Rates	Employee Benefits	Administrative Costs	Plant Operations	Laundry	House Keeping	Dietary	Nursing Supplies	Medical Records	Social Services & Activities	Nursing Services	Direct Costs
Average Facilities/Comparable Occupancy	870,430	737,785	344,455	59,258	127,947	405,298	28,955	33,812	139,872	2,080,288	4,828,101
Montana Veteran's Home	2,306,454	906,419	724,351	234,722	247,227	1,019,262	0	64,564	378,519	3,414,160	9,295,678
Cost Differences	1,436,024	168,634	379,896	175,464	119,280	613,964	(28,955)	30,752	238,647	1,333,872	4,467,577
Percentage above (below) average	164.98%	22.86%	110.29%	296.10%	93.23%	151.48%	-100.00%	90.95%	170.62%	64.12%	92.53%

Overall direct costs for nursing home services at MVH are 92.5 percent higher than the average of nursing homes with similar or higher occupancy rates and review of the various cost classifications shows higher costs for MVH almost across the board.

Quality Measurement Comparisons

The final comparison developed for this report shows a comparison between MVH and other facilities that have a similar star ranking from the Centers for Medicare and Medicaid (CMS). CMS ranks nursing facilities across the country using a Five-Star Rating System. The Five-Star Quality Rating System was created to help consumers, their families, and caregivers compare nursing homes more easily and help identify areas about which families and consumers may have questions.

Nursing homes regularly collect assessment information on all their residents using a form called the Minimum Data Set. The information collected includes the residents' health, physical functioning, mental status, and general well being. Nursing homes self-report this information to Medicare. Medicare uses some of the assessment information to measure the quality of certain aspects of nursing home care. These measures of care are called "quality measures" by CMS. Nursing home ratings are taken from the following three sources of data:

- o Health inspections
- o Staffing
- o Quality measures

MVH latest Medicare ranking is five-stars. The figure below compares average costs for nursing facilities included in the review that have a four star ranking or above.

Department of Public Health and Human Services Senior and Long-term Care Division Montana Veterans Home/ Private Nursing Home Comparison												
Cost Center Expenses												
Comparisons Based On Quality Measures Defined by CMS	CMS Star Rating	Employee Benefits	Administrative Costs	Plant Operations	Laundry	House Keeping	Dietary	Nursing Supplies	Medical Records	Social Services & Activities	Nursing Services	Direct Costs
Average for Facilities with Similar Rankings **** and above	1,173,341	1,173,341	825,507	425,662	82,685	161,845	537,717	21,167	39,188	189,164	2,837,240	6,578,595
Montana Veteran's Home *****	2,306,454	2,306,454	906,419	724,351	234,722	247,227	1,019,262	0	64,564	378,519	3,414,160	9,295,678
Cost Differences	1,133,114	1,133,114	80,912	298,689	152,037	85,382	481,545	(21,167)	25,376	189,355	576,921	2,717,084
Percentage above (below) average	96.57%	96.57%	9.80%	70.17%	183.87%	52.76%	89.55%	-100.00%	64.75%	100.10%	20.33%	41.30%

Using this measurement for comparison appears to narrow the gap between the average costs of providing quality nursing home care at comparably ranked facilities and MVH. However MVH remains 41.3 percent higher than the average costs of providing services at private facilities.

Summary

Budgeting MVH at the average of private nursing facilities will require policy decisions by the legislature centered around the definition and comparability of the average to MVH. Impacts of higher regional costs, occupancy rates, and additional costs that appear to be associated with high ranking in quality measurements all impact the selection of the average costs of private nursing facilities.

Budgeting MVH at the various averages yields the following general fund increase for the 2013 biennium:

Department of Public Health and Human Services Senior and Long-term Care Division Montana Veterans Home/ Private Nursing Home Comparison				
Average of Costs				
	Executive Proposal	Quality Measures	Occupancy Rates	Geographic Location
2013 Biennial Appropriation for MVH*	\$16,843,183	\$12,305,866	\$8,967,292	\$9,265,584
Resulting Increase to General Fund	\$0	\$4,537,317	\$4,841,412	\$4,841,412
* Appropriations for the domiciliary, plant operations, capital equipment, and ancillary costs of \$4.5 million not included				

General fund impacts occur as current statute requires that amounts in excess of \$2.0 million in the veterans' portion of the cigarette tax fund be transferred to the state's general fund at the end of the fiscal year. If the legislature decided to budget MVH at the average of facilities at the occupancy rates, geographic location or bed capacity the entire amount of cigarette taxes requested for the biennium could be deposited into the general fund. However, the consideration of the ongoing fixed costs associated with the facility including the following would need to be addressed as part of the budgeting process:

- o Higher workers' compensation rates for MVH than the average for private facilities
- o Provision of pension and health insurance benefits to MVH employees

IMPACTS OF CONSTRUCTION OF THE SOUTHWESTERN MONTANA VETERANS' HOME

The 2009 Legislature approved HB 213. The bill established a Southwestern Montana Veterans' Home and a site selection committee, and allocated 1.2 percent of cigarette tax money to a state special revenue account for use in construction of the facility over the 2011 biennium. The allocation of 1.2 percent to a state special revenue fund reduced general fund revenues by approximately \$838,400 in FY 2010 and a similar reduction will occur in FY 2011.

During the interim the site selection committee selected a site in Butte for construction of the facility. HB 296, currently with the House Appropriation Committee, extends the diversion of cigarette tax until FY 2015, with the intent of offsetting the state construction costs for the facility. Construction costs are currently estimated at \$13.75 million total funds and \$4.81 million in state revenues. Following construction of the facility operation and maintenance of the facility would become the responsibility of the state.

HB 213 allows the Department of Public Health and Human Services to contract with a private vendor for the operation of the facility, the same business model used by the Eastern Montana Veterans' Home. The funding for the contract and maintenance of the facility after completion of the facility would be federal per diem payments, private insurance, Medicaid, Medicare, and cigarette tax state special revenues as needed.

Need for Additional Services

The Veterans Projections Source VetPop2000, U.S. Department of Veterans Affairs (VA), reports an estimate for the 2025 Montana veteran population by age. The totals are presented below:

- o Age 65-69 7,611
- o Age 70-74 7,025
- o Age 75-79 9,097
- o Age 80-84 5,160
- o Age 85+ 3,857

The VA uses these estimates to determine the maximum number of state home, nursing home and domiciliary beds Montana for federal per diem payments. Currently, this is estimated at 281 beds needed through FY 2020. Currently, Montana has 197 beds allowable for federal per diem payments. As stated above the FY 2010 occupancy rate for MVH was 80.65 percent and the rate for EMVH was 85.90 percent, indicating capacity to serve up to an additional 31 veterans.